

MCI WORLD COM

ORIGINAL

1801 Pennsylvania Avenue, NW
Washington, DC 20006

December 29, 1999

EX PARTE

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

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DEC 29 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket No. 96-45

Dear Ms. Salas:

On June 10, 1999, Larry Fenster, Alan Lentz, and I of MCI WorldCom met with Irene Flannery, Sharon Webber, and Beth Valinoti of the Common Carrier Bureau's Accounting Policy Division. We discussed the issues described in the attached document, which was distributed at the meeting and served as the basis for our discussion.

An original and one copy of this memorandum are being filed with your office.

Sincerely,



Lori Wright
Senior Manager, Regulatory Affairs

cc: Irene Flannery
Sharon Webber
Beth Valinoti
Praveen Goyal

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Year 2 E-Rate Program Administration

***Issues and proposed solutions to
implementing timely discounts***

**MCI WorldCom
June 10, 1999**

Discussion Points

- **Barriers to timely implementation of Year 2 billing**
 - Delayed Funding Commitment Decision Letters
 - Program structure issues
 - MCI WorldCom issues
- **Proposed solutions and recommendations**
 - Continue BEAR process for Year 2
 - Use Year 3 Task Force to Consider Permanent, Cost Effective, Billing Solutions

Delays Have Left Little Development Time

- **Funding Commitment Decision Letters are delayed**
 - As of June 10, MCI WorldCom has received no FCDLs for Year 2 customers who are to receive discounts beginning July 1
 - MCI WorldCom lacked full information about Year 1 customers until FCDLs were received in April 1999
 - Timely information about enrolled customers is critical to defining an effective billing solution
 - Extending deadlines for school applications and for FCDL distribution should lead to extending deadlines for carriers
- **Documentation defining carrier standards for Year 2 billing has not yet been distributed**

Year 2 Approach Is Incompatible with Existing Billing Systems

- **E-Rate discounts differ from typical tariffed discount programs**
- **Year 2 funding rules require new ways of defining customers**

E-Rate Discounts Differ From Typical Discount Programs

TYPICAL PROGRAM

- **By tariff, all customers receive same discount**
- **Eligible service is always discounted for all enrolled customers**
- **Customer use of service has no impact on discount**
- **Discounts apply to products as defined by MCIW**
- **All discounts are calculated and applied to base rates**
- **Discount percentage and cap fixed for tariff duration**

E-RATE PROGRAM

- **Each customer may have a unique discount percentage**
- **Service may or may not be discounted, depending on funding category**
- **Discount eligibility differs depending on customer use**
- **SLD product definitions differ from MCIW**
- **Discounts calculated and applied net of other discounts**
- **Discount percentage and cap vary during enrollment period**

E-Rate Rules Require A New Customer Definition

TARIFFED CUSTOMERS

- **Defined by order entry and billing IDs**
- **Each invoice is self contained in terms of discounts and caps**
- **One-to-one ratio between discount plan enrollment and customer billing ID**
- **Customer data stored in standard order entry databases**

E-RATE CUSTOMERS

- **Defined by Funding Request Number**
- **Discount and cap may include charges billed on multiple invoices**
- **Consortium rules permit separate customers to receive a joint discount**
- **Data must be stored in a database built specifically to support E-rate**

Year 2 Rules Create Major Hurdles for MCI WorldCom

- **Existing order entry systems cannot support E-Rate**
 - MCI WorldCom has absorbed the capital cost of creating a special database
 - On going data entry leads to increased operating costs
- **Meeting discount and cap rules requires substantial system development**
 - An estimated \$2M to \$3M investment is needed
 - Development will not benefit other customers since approach differs from what is needed in the marketplace
 - Changing percentages and caps adds to complexity and cost
- **Standard audit, trouble management, and customer service processes do not support E-Rate**

Why Is a New Solution Needed?

- **Vendor Costs of Year 2 billing are out of proportion to benefits provided to schools and libraries**
 - Annual revenue needed to recover investment is approximately \$1.8 million
 - Average annual benefit to each applicant is only \$350, or a total of \$160,000
- **Year 3 is expected to bring changes, resulting in continued impacts to capital and operating costs**
- **Coordinating with state funds further compounds the impact of proposed Year 2 billing**

Interim Solution: Continue BEAR Process for Year 2

- **Eliminates the immediate crisis of implementing a new discounting process by 7/1**
- **SLD is not required to implement its proposed Year 2 billing approach**
- **Year 2 BEAR forms could be filed quarterly or semi-annually**
- **Customers, carriers, and SLD are familiar with the process**
- **Provides time to consider options to solve issues and plan a smooth implementation for Year 3**

Long Term Option 1: Continue the BEAR Process

- **BEAR process has not burdened schools with cash flow problems**
- **FCC established SLD in the belief it would be the most efficient E-Rate billing and reimbursement entity**
- **MCI WorldCom agrees and recommends SLD continue in this role**

Long Term Option 2: Implement Fixed Monthly Credits

- **Apply a fixed credit equal to 1/12 of the cap amount to each monthly invoice**
- **Customers benefit from fixed credits**
 - **Allows schools to receive payments without delay**
 - **Delivers benefits each month rather than quarterly**
- **Utilizes established processes to control costs**
 - **The SLD determines maximum discount per application using existing priority rules**
 - **SLD notifies school and carrier of percentage and cap**
 - **Carrier claims reimbursement using established process**

Long Term Option 3: Reimburse Schools Directly

- **Application and approval processes remain the same**
 - SLD determines the cap for each funding request
 - SLD notifies the school of discount percentage and caps and the carrier of eligible applicants
 - Carrier provides service with no discounts, without demanding payment from the customer for up to 3 months
- **Reimbursement process differs**
 - School submits carrier bills to SLD
 - SLD determines discount credit and distributes funds to school
 - School pays in full to carrier

Recommendations and Next Steps

- **Solve the immediate problem by continuing the BEAR process for Year 2**
- **Consider alternatives for a long term solution**
 - **Involve carriers and customers in the process**
 - **Consider different approaches for services and equipment purchases**
 - **Equipment represents a one-time capital expenditure while services represent monthly operating costs**
- **By December, 1999 announce a final Year 3 approach**